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Grain and Feed

Grain Intervention (Procurement) Prices for 2008 2008

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Report Highlights:

One month earlier than last year, the Ministry of Agriculture has decided upon the government intervention (procurement) prices for food quality wheat and rye. The price levels were raised by 60 percent over last year's but are still lower than the real market price for grain. Specialists predict that the government will not be able to purchase grain at these prices in 200. However, the increased price may prevent seasonal price fluctuations if production is strong.

Includes PSD Changes: No
Includes Trade Matrix: No
Trade Report
Moscow [RS1]
[RS]

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Executive Summary

On March 26, 2008, the Ministry of Agriculture determined the government intervention (procurement) prices for food quality wheat and rye¹. For the first time since the institution of grain interventions, the prices were announced four months before the beginning of the grain marketing year, and a month earlier than last year. The prices are 60 percent higher than last year, but lower than the real market price for grain. Specialists believe that the government will not be able to procure enough grain at these prices to fill the state intervention reserve, but that the early announcement of support prices will help farmers determine their business plans for market year (MY) 2008 and may limit further price increases. The government did not purchase grain for the intervention fund in 2007, as market prices increased far above the procurement price level determined for the 2007 crop.

Ministry of Agriculture Announces Grain Intervention Prices

In March 2008, in accordance with Federal Law No. 264-FZ, dated December 29, 2006, "On Development of Agriculture," and the Rules concerning state procurement and commodity interventions for regulation of agricultural and food markets, approved by the Resolution of the government of the Russian Federation No. 580 of August 3, 2001, the Russian Ministry of Agriculture calculated the minimum price of grain for government procurement in 2008. Taken into consideration was the condition of winter crops, structure of area sown, and analyses of foreign and domestic grain markets. The prices are set as follows²:

1. For soft, food quality wheat, class 3
 - in the Central, North-Western, Volga Valley, and Southern Federal Districts – 5,100 rubles (\$215.19) per metric ton
 - in the Ural, Siberian, and the Far-Eastern Federal Districts – 5,000 rubles (\$210.97) per metric ton
2. For the soft, food quality wheat, class 4
 - the Central, North-Western, Volga Valley, and Southern Federal Districts - 4,900 rubles (\$206.75) per metric ton
 - in the Ural, Siberian, and the Far-Eastern Federal Districts – 4,800 rubles (\$202.53) per metric ton
3. For rye, food quality, group "A"
 - all districts – 3,900 rubles (\$164.56) per metric ton.

The proposed prices have already been agreed upon by the Russian Federal Service on Tariffs.

In 2007 intervention prices for class 3 wheat ranged from 3,000 rubles (\$115) to 3,500 rubles (\$135) per metric ton; class 4 wheat ranged from 2,700 rubles (\$104) to 3,100 rubles (\$119) per metric ton. In an effort to foster regional grain production, the 2007 price for Siberia was higher than that for European Russia. However, the 2008 procurement prices illustrate a reassessment of this policy, as prices for European Russia are higher than Siberia. These changes could possibly represent an effort by Russian authorities to make government

¹ The price intervention mechanism works as follows: the government can purchase grain from producers at a predetermined procurement price using funds allotted from the federal budget for these purposes. Farmers usually start selling grain if the market price is close to or below the procurement price or if the delivery for exports to other regions of Russia is difficult (i.e. from Siberia). On the other hand, when prices increase sharply, the government can start selling grain from the intervention stocks. Money included in the federal budget for intervention is not significant, and interventions have a greater moral impact than a real influence on the supply and demand of grain in the market.

² \$US exchange rate on March 26, 2008 is 23.70 rubles, while in April 2007, this rate was 25.95 rubles.

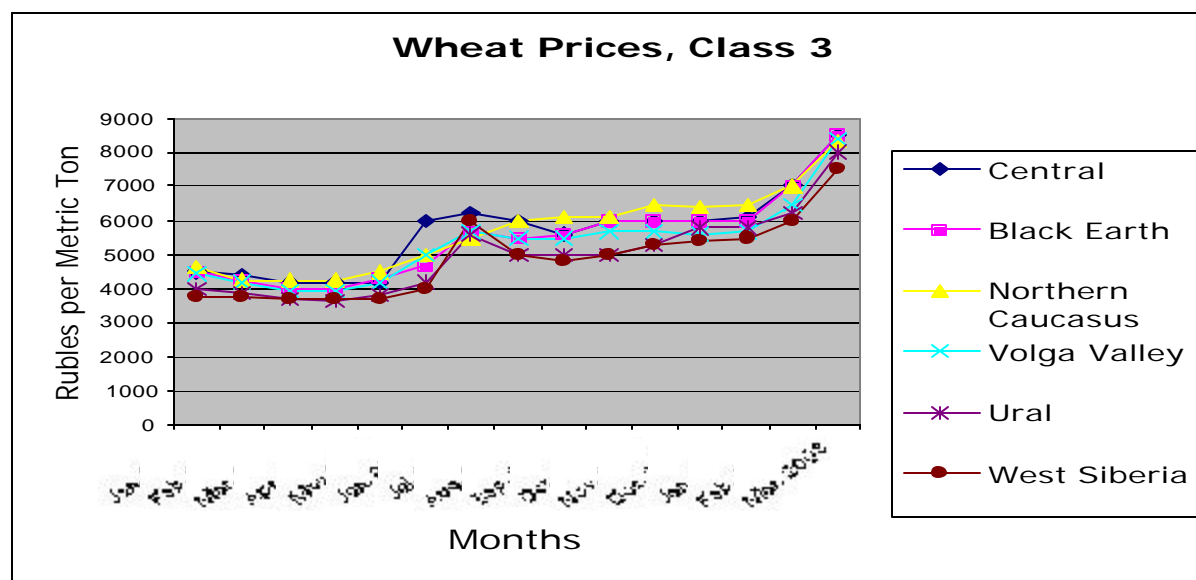
procurement more competitive in relation to export prices. In all regions, the price for rye was 2,600 rubles (\$100) per metric ton³.

Grain Market Prices in 2007-2008

In 2007, market prices were well above declared intervention procurement prices. Therefore, the Russian government was selling, rather than buying, grain from the intervention fund.

In the Russian market, the average price of food quality wheat, class 3 increased from approximately 4,000 rubles in the beginning of CY 2007 to 6,000 rubles in the Fall of 2007. Then, after 3 months of stabilization, the average price skyrocketed to 8,000-8,500 rubles in March 2008. These prices never decreased to the 2007 procurement price set by the government. Average market prices of food quality wheat, class 4 were only 100–300 rubles below class 3 wheat prices, depending on the region.

Figure 1. Average Price of Wheat, Class 3, by Federal Regions, 2007-2008



Source: Grain Price Reports of "WJ Interagro". Detailed information can be found on the site <http://www.agronews.ru/NewsP.php?NId=43770>

Comments

Specialists predict that in MY 2008 the government will not find enough grain at declared prices to fill the state intervention reserve, which has been significantly exhausted by the commodity interventions in MY 2007. These predictions are based on low grain stocks worldwide; low stocks of wheat in Russia; the growing demand for grain, both worldwide and in Russia; as well as Russia's inflation rate and the increasing price of inputs. Thus, even if Russia's 2008 grain crop reached the forecast level of 85 million metric tons (a 4-percent increase from the 2007 crop), grain prices will hardly fall below 6,000 rubles per metric ton. However, the early announcement of support prices will help farmers determine their business plans for MY 2008 and will provide a sense of security as prices start to decrease in the first months of the harvest. Furthermore, announced prices set a "minimum" price target for grain traders and may prevent drastic price changes in the new marketing year.

³ GAIN RS7040 Grain Intervention (procurement) Prices for 2007

Relevant Reports

GAIN RS8013 Grain and Feed / March Monthly Update

<http://www.fas.usda.gov/gainfiles/200802/146293784.pdf>

GAIN RS7075 Grain and Feed / Grain Interventions Announced

<http://www.fas.usda.gov/gainfiles/200710/146292770.pdf>

GAIN RS7040 Grain and Feed / Grain Intervention (Procurement) prices for 2007

<http://www.fas.usda.gov/gainfiles/200704/146280950.pdf>